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1992 Office of the
Northern Montana
College bond
audit, 1987 Series
A and 1986 Series

Office of the Legislative Auditor

State of Montana



Report to the Legislature

November 1992

Financial Audit

Fiscal Year Ended June 30, 1992

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Northern Montana College Bond Audit

1987 Series A and 1986 Series C Revenue Bonds

Our report contains no recommendations. We issued an unqualified opinion on the financial statements.

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STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

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Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1992

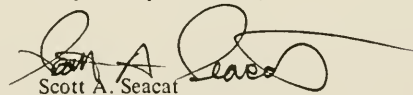
The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the audit of the financial statements related to the Northern Montana College 1987 Series A and 1986 Series C Revenue Bonds. We performed this audit at the request of college officials to satisfy requirements of bond indentures. The Board of Regents (the board) and Northern Montana College (the college) issued \$1,445,000 of Auxiliary Facilities and Student Building Fees Revenue Bonds 1987 Series A on August 19, 1987. The bonds are limited obligations of the board and are payable from auxiliary revenues, student fee revenues, and earnings on certain investments required by the bond indenture. The debt will be retired in 2007.

The board issued \$225,000 of 1986 Series C bonds on August 27, 1986 to provide funding to the college for the acquisition and installation of computer hardware, computer software, and other equipment. The bonds are the obligation of the board. The college entered into a loan agreement with the board to repay its portion of the debt. The loan will be repaid in December 1992.

We thank the Northern Montana College officials and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial Audit

Fiscal Year Ended June 30, 1992

Northern Montana College Bond Audit

1987 Series A and 1986 Series C Revenue Bonds

Members of the audit staff involved in this audit were: Pearl M. Allen
and Paul J. O'Loughlin.

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Appointed and Administrative Officials

Board of Regents of Higher Education

Term
Expires

| | | |
|--|------------|------|
| Stan Stephens, Governor* | | 1992 |
| Nancy Keenan, Superintendent of Public Instruction* | | 1992 |
| William L. Mathers Chairman | Miles City | 1994 |
| Jim Kaze Vice Chairman | Havre | 1999 |
| Tom Topel | Billings | 1993 |
| Cordell Johnson | Helena | 1996 |
| Kermit Schwanke | Missoula | 1997 |
| Paul Boylan | Bozeman | 1998 |
| Travis Belcher Student Representative | Bozeman | 1993 |

Commissioner of Higher Education

| | |
|----------------------|--|
| Dr. John Hutchinson* | Commissioner of Higher Education |
| Rod Sundsted | Interim Associate Commis- sioner for Fiscal Affairs |

Northern Montana College

| | |
|--------------------------|----------------------------|
| Dr. William Daehling | President |
| Dr. August "Gus" W. Korb | Academic Vice President |
| William R. Byars, Jr. | Director of Fiscal Affairs |
| William O'Donnell | Controller |

*Ex officio member

Independent Auditor's Report & College's Revenue Bond Financial Statements



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT
LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Balance Sheets of the Northern Montana College Auxiliary Facilities and Student Building Fees Revenue Bonds Series A 1987 - Pledged Revenue Fund and Board of Regents of Higher Education Special Purpose Revenue Bonds, Northern Montana College Equipment Financing Series C 1986 - Pledged Revenue Fund as of June 30, 1992, and the related Statements of Revenues, Expenditures, Transfers and Changes in Fund Balance for the fiscal year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the accounts (as specified in Note 1, Fund Accounting) related to the Northern Montana College Series A 1987 and Series C 1986 Revenue Bonds as of June 30, 1992, and the results of operations for the year then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

Handwritten signature of James Gillett in cursive.

James Gillett, CPA
Deputy Legislative Auditor

October 1, 1992

NORTHERN MONTANA COLLEGE

Balance Sheet

Auxiliary Facilities and Student Building Fees Revenue Bonds
Series A 1987 - Pledged Revenue Fund

June 30, 1992

ASSETS

| | |
|--|------------------|
| Cash | \$1,860 |
| Investments | 5,000 |
| Accounts Receivable less allowance for doubtful accounts of \$3,233 | 80,388 |
| Due from Other Funds | 39,052 |
| Inventory | 241,622 |
| | ----- |
| TOTAL ASSETS | \$367,922 |
| | ===== |

LIABILITIES AND FUND BALANCE

| | |
|---|------------------|
| Accounts Payable and Accrued Expenses | 33,991 |
| Student Deposits | 34,718 |
| Deferred Revenue | 38,885 |
| Due to Other Funds | 77,589 |
| Compensated Absences - (See Note 4) | 19,130 |
| | ----- |
| Fund Balance | 163,609 |
| | ----- |
| TOTAL LIABILITIES AND FUND BALANCE | \$367,922 |
| | ===== |

The accompanying notes are an integral part of this financial statement.

NORTHERN MONTANA COLLEGE

Statement of Revenues, Expenditures, Transfers and Changes in Fund Balance

Auxiliary Facilities and Student Building Fees Revenue Bonds
 Series A 1987 – Pledged Revenue Fund
 Fiscal Year Ended June 30, 1992

| | |
|---|-------------|
| Revenues: | |
| Fees | \$236,928 |
| Sales of Auxiliary Services | 1,665,389 |
| Investment Income | 3,446 |
| | ----- |
| TOTAL | \$1,905,763 |
| Expenditures and Transfers: | |
| Personal Services: | |
| Salaries | 251,999 |
| Wages | 138,673 |
| Benefits | 81,742 |
| | ----- |
| Total Personal Services | 472,414 |
| Operating Expenses: | |
| Contracted Services | 247,109 |
| Supplies and Materials | 22,476 |
| Communications | 10,537 |
| Travel | 3,281 |
| Rent | 443 |
| Utilities | 195,568 |
| Repair and Maintenance | 281,380 |
| Other Expenses | (2,522) |
| Goods Purchased for Resale | 601,372 |
| | ----- |
| Total Operating Expenses | 1,359,644 |
| Equipment | 14,068 |
| Mandatory Transfer for Debt Service | 73,000 |
| | ----- |
| Total Expenditures and Transfers | 1,919,126 |
| Excess Revenues Over Expenditures and Transfers | (13,363) |
| Fund Balance – July 1, 1991 | 176,972 |
| | ----- |
| Fund Balance – June 30, 1992 | \$163,609 |
| | ===== |

The accompanying notes are an integral part of this financial statement.

NORTHERN MONTANA COLLEGE

Balance Sheet

Board of Regents of Higher Education
Special Purpose Revenue Bonds
Northern Montana College Equipment Financing
Series C 1986 - Pledged Revenue Fund

June 30, 1992

ASSETS

| | |
|---------------------|----------|
| Cash | \$7,043 |
| Investments | 5,600 |
| Accounts Receivable | 19 |
| | ----- |
| TOTAL ASSETS | \$12,662 |
| | ===== |

LIABILITIES AND FUND BALANCE

| | |
|------------------------------------|----------|
| Deferred Revenue | 10,089 |
| Fund Balance | 2,573 |
| | ----- |
| TOTAL LIABILITIES AND FUND BALANCE | \$12,662 |
| | ===== |

The accompanying notes are an integral part of this financial statement.

NORTHERN MONTANA COLLEGE

Statement of Revenues, Expenditures,
Transfers and Changes in Fund Balance

Board of Regents of Higher Education
Special Purpose Revenue Bonds
Northern Montana College Equipment Financing
Series C 1986 – Pledged Revenue Fund

Fiscal Year Ended June 30, 1992

Revenues:

| | |
|-------------------|----------|
| Computer Use Fee | \$67,617 |
| Investment Income | 279 |
| | ----- |
| Total Revenues | \$67,896 |

Expenditures and Transfers:

| | |
|----------------------------|--------|
| Expenditures: | |
| Contracted Services | 500 |
| University System Projects | 2,705 |
| IBM Lease Payment | 17,616 |
| | ----- |
| Total Expenditures | 20,821 |

Mandatory Transfer for Debt Service 47,292

Total Expenditures and Transfers 68,113

Excess Revenues Over Expenditures and Transfers (217)

Fund Balance – July 1, 1991 2,790

Fund Balance – June 30, 1992 \$2,573

=====

The accompanying notes are an integral part of this financial statement.

NORTHERN MONTANA COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1992

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Northern Montana College is one of six units of the Montana University System. The Montana University System is a legal and financial component unit of the State of Montana. The College is governed by the Board of Regents of Higher Education. Board members are appointed by the Governor and confirmed by the Senate of the Montana Legislature.

Accrual Basis

The financial statements have been prepared on the full accrual basis in accordance with generally accepted accounting principles for colleges and universities. The statement of revenues, expenditures, transfers and other changes in fund balance is a statement of financial activities of funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

Fund Accounting

The accounts of the college are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use. Separate accounts are maintained for each fund; however, in the accompanying financial statements, the accounts related to the pledged revenue of Auxiliary Facilities and Student Building Fees Revenue Bonds - Series A 1987 and the Board of Regents of Higher Education Special Purpose Revenue Bonds - Series C 1986 have been combined into single fund groups for presentation purposes. The statements are not intended to present the financial activity for all of the accounts in the fund or all of the accounts of the college.

Investments

All investments are recorded at cost. Investments consist of amounts invested through the Montana State Board of Investments short-term investment pool. All gains and losses from the sale or disposition of investments are recorded as revenues of the fund in which the investments are recorded. Ordinary income derived from investments is accounted for in the fund owning such investments.

Inventories

Inventories primarily consist of textbooks and school supplies and are valued according to the first in - first out (FIFO) basis at cost.

Note 2 - BOND OBLIGATIONS

Series A 1987

On August 19, 1987, the Board of Regents of Higher Education for the State of Montana (The Board) and Northern Montana College issued Auxiliary Facilities and Student Building Fees Revenue Bonds Series A 1987 in the aggregate principal amount of \$1,445,000. The Bonds are limited obligations of the Board, and are payable solely from, and secured by a first party lien on Auxiliary Facilities Revenues, student fee revenues, and earnings from investments of certain funds and accounts created under the bond indenture.

As of June 30, 1992, the college had \$1,300,000 in outstanding revenue bonds payable. The annual debt service requirements for the next five years, including interest, are as follows:

| <u>Fiscal Year</u> <u>Ending June 30</u> | <u>Payment</u> <u>Amount</u> |
|---|---------------------------------|
| 1993 | \$ 150,366 |
| 1994 | 147,273 |
| 1995 | 148,885 |
| 1996 | 150,010 |
| 1997 | 145,816 |
| 1998-2007 | <u>1,475,008</u> |
| | \$ 2,217,358 |

Series C 1986

On September 4, 1985, the State of Montana Board of Regents of Higher Education (The Board) authorized the issuance of Series 1985 Special Purpose Revenue Bonds. The Bonds are an obligation of the Board of Regents of Higher Education. The purpose of the issue was to provide funding to various units of the Montana University System for the acquisition and installation of computer hardware, computer software, and various other types of equipment.

The issue consisted of an A, B, and C series. On August 27, 1986, the Board of Regents of Higher Education issued C series bonds to provide funding to Northern Montana College. Northern Montana College has entered into a loan agreement with the Board of Regents of Higher Education to repay their portion of the debt associated with the C series. The loan is payable through the year 1992 from the gross pledged revenues of the college's computer fees.

Semi-annual deposits for a bond and interest sinking account are required equal to the interest and principal to become due on the following payment date. Deposits must be made no later than 10 days prior to the payment date. A debt service reserve fund in the amount of \$20,000 must also be maintained with a trustee.

At June 30, 1992, the principal amount of outstanding bonds was \$11,381. The projected debt service for the bonds, including interest, is as follows:

| <u>Fiscal Year</u> <u>Ending June 30</u> | <u>Payment</u> <u>Amount</u> |
|---|---------------------------------|
| 1993 | 11,823 |

Note 3 - CAPITAL LEASE

Northern Montana College has a lease agreement with IBM Corporation for the acquisition of personal computers and accessories for instructional use. The final rental payment required under the lease agreement which will expire March 31, 1993 is as follows:

| <u>Fiscal Year</u> <u>Ending June 30</u> | <u>Principal</u> | <u>Interest</u> |
|---|------------------|-----------------|
| 1993 | \$ 12,115 | \$ 1,097 |

Note 4 - COMPENSATED ABSENCES

Eligible college employees earn eight hours sick and ten hours annual leave for each month worked. The annual leave earned increases with longevity. Employees may accumulate annual leave up to twice their annual accrual amount and sick leave may accumulate without limitation.

Note 5 - ENROLLMENT RECORDS

Auxiliary facility revenues and the student building fee revenues are pledged by the college for repayment of the Series A 1987 bonds. Student computer use fee revenues are pledged by the college for repayment of the Series C 1986 bonds. The amount of these revenues is directly related to student enrollment. Enrollment is measured in full time equivalents (FTE's). The following schedule shows FTE count at the college for fiscal year 1991-92.

Schedule of Student FTE

| <u>Quarter</u> | <u>Year</u> | (1) <u>Undergraduate</u> <u>FTE's Reported</u> | (2) <u>Graduate</u> <u>FTE's Reported</u> | <u>Total FTE's</u> <u>Reported</u> |
|----------------|-------------|--|---|---------------------------------------|
| Summer | 1991 | 633 | 160 | 793 |
| Fall | 1991 | 1,374 | 87 | 1,461 |
| Winter | 1992 | 1,389 | 67 | 1,456 |
| Spring | 1992 | 1,233 | 75 | 1,308 |

(1) Undergraduate quarterly credit hours divided by 15.

(2) Graduate quarterly credit hours divided by 12.

Note 6 - RETIREMENT PROGRAMS

Retirement benefits for employees paid from pledged revenue funds are provided for academic and certain professional staff through the Montana Teachers' Retirement System (TRS) and the Montana Public Employees' Retirement System (PERS). Both plans are administered by the state of Montana.

Defined Benefit Plans

Teachers' Retirement System

The Teachers' Retirement System is a mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA. Teachers' Retirement System participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit.

Public Employees' Retirement System

Established in 1945 and governed by Title 19, Chapter 3, MCA, Public Employees' Retirement System (PERS) participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years.

The college's contributions to these plans from Auxiliary Facilities and Student Building Fees Revenue Bond accounts totalled \$ 17,111 for the year end June 30, 1992 as follows:

Retirement Plan Information as of June 30, 1992

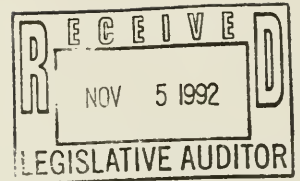
| | <u>PERS</u> | <u>TRS</u> |
|----------------------------|-------------|------------|
| Covered Payroll | \$ 202,313 | \$ 55,436 |
| Total Payroll | 390,672 | 390,672 |
| Employer Contributions | 12,976 | 4,135 |
| Percent of Covered Payroll | 6.417% | 7.459% |
| Employee Contributions | 12,745 | 3,905 |
| Percent of Covered Payroll | 6.300% | 7.044% |

Further information on the retirement systems mentioned above can be found in the State of Montana Comprehensive Annual Financial Report for the fiscal year ended June 30, 1992.

College Response



**NORTHERN
MONTANA
COLLEGE**



November 6, 1992

Scott Seacat
Legislative Auditor
Room 135 Capitol Building
Helena, MT 59620

Dear Mr. Seacat:

This letter is to confirm the completion of the audit of the financial statements related to the Northern Montana College 1987 Series A and 1986 Series C Revenue Bonds. It is my understanding that there are no recommendations.

I wish to thank you and your staff for the professional review of our bond related accounts. Your staff's familiarity with Northern Montana College and their knowledge of state policy and university accounting requirements provides for a very efficient and worthwhile review of our fiscal operations.

We appreciate your willingness to provide this audit which ensures the College's compliance with the bond indenture.

Sincerely,

William R. Byars, Jr.
Director of Fiscal Affairs



